THE EXPRESS CHARGES PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION

In an earlier article,[1] the writer described the more important objects of complaint against the rates and practices of express companies that have prevailed heretofore; stated the remedial changes, reached in some cases with the coöperation of the companies, that are applicable to the practices and methods of handling the traffic; discussed more fully the arguments urged in support of the complaints against the present classification, rates, and charges; and stated the general plan proposed by the Interstate Commerce Commission for dealing with these complaints. Because, at the time of writing, the case was not closed before the commission, a discussion of the specific schedule of charges proposed by the commission and the specific criticism of that schedule on the part of express companies and shippers was left until a later time. The case has now been finished and the commission has given its decision, under date of July 24, 1913.[2]

The schedule prescribed by the commission, effective October 15, is a complete revision of the whole structure of express rates. The commission went to this length because, in its opinion, the interdependence of all rates and charges stood in the way of satisfactory relief from the rates complained of without a readjustment of the whole schedule.[3]

Basis of Interstate Commerce Commission's Rate Schedule

It becomes at once a matter of considerable interest to know upon what basis or principle the commission proceeded in constructing its brand-new structure of charges. The commission considered a number of bases that have been urged, including:

(1) The return on the investment; (2) the capitalization of the companies; (3) the earnings; (4) the operating expenses; (5) first-class freight rates; (6) passenger rates. In addition, the commission endeavored to reach some common understanding in this matter with the express companies.

[1] "The Rates and Practices of Express Companies," AMERICAN ECONOMIC REVIEW, vol. III (June, 1913), pp. 314-340.

[2] "In the Matter of Express Rates, Practices, Accounts, and Revenues," 28 *Interstate Commerce Commission Reports,* p. 131.

[3] 24 *Interstate Commerce Commission Reports,* pp. 433-434.

The conferences developed, however, that no common ground could be found owing to the impossibility of acceptance by the commission of the percentage contracts between the express companies and the rail carriers as making a legal or moral necessity for higher rates than could be justified otherwise.[4]

The companies press their contention in this matter, because of the bearing of the percentage form of railway compensation on the express companies' revenue from shipments weighing less than 100 pounds. This is explained by the commission thus:

While such packages must have rates based upon weight, yet as they move as separate shipments with individual pick-up and delivery service, each must pay for such service as an individual shipment. The amount of such service varies but slightly with the weight of the package and not at all with the length of its rail journey. It is entirely performed by the express carrier, yet the demand is that shippers shall be compelled to pay upon such packages rates sufficiently high to yield to the express carrier, out of a division ranging from 35 per cent to 60 per cent, an amount sufficient to compensate it. Every addition to the rates paid by the shipper for such service as distinguished from the line haul is cut in two by the contracts and must be approximately doubled if the express carrier is to be compensated.

Likewise, in the case of rates for long distances, the service performed by the rail carrier, especially on shipments of large weight, is relatively much greater than that performed by the express company. As to these rates, the contention is that full compensation for the rail carrier must be found in half or less than half thereof.[5]

The commission's inquiries in this matter led to no satisfying principle upon which to construct its completely new rate structure. The commission expresses the judgment that there is no one test of reasonableness. But it gives its conclusions as follows:

(1) That express rates should be made primarily to meet the need of the great body of our people and should therefore be stated in terms that represent the small packages which the express company is intended to carry rather than by the 100 pounds as freight rates are stated.

(2) That in the fixing of its rates an express company should not be allowed to charge more than a railroad company if the latter undertook to, and did, give the same service.

(3) That it is proper for the government to treat the express company as a freight forwarder by passenger train, giving supplemental service at each terminus, and intermediate care.

(4) That an express rate may not be based upon the monopoly right of the express company to be the exclusive freight forwarder over one or more lines of railroad.

[4] 28 *Interstate Commerce Commission Reports*, p. 140.

[5] *Ibid.*, p. 141.

(5) That the rates should not include more than a reasonable compensation for the service given, even though such compensation falls below that which the railroad exacts as a minimum for the carrying of 100 pounds of freight.

(6) That it is unreasonable to fix as rapid a decline in express rates for long distances as is made by the railroads in their freight rates, express service in this respect being more analogous to passenger than to freight service.

(7) That in compounding the express rates the railroads should be allowed a compensation for bulked freight moved upon a passenger train as to which it is relieved by contract from all liability for loss or damage and is without expense for the furnishing of a receipt, the billing, the bookkeeping, and a great number of other general expenses.

(8) That the rates should include a return to the express company which will compensate it with profit for the expense of the service which it gives, there being added thereto in the formation of the total rate the proper charge which it may reasonably make for the service which the railroad gives, as stated in the preceding paragraph.[6]

Method of Constructing the Commission's Rates

In view of the rather indefinite results of the search for a basis of rate making, it is of considerable interest to know just how the commission proceeded in preparing the schedule prescribed by it. It is clear from an analysis of the schedule itself that the charges are computed in some regular manner. But the commission does not publish in its opinion any description of its process, nor does it indicate the relative weight given to different considerations in making up its charges. However, in the response of the express companies on October 9, 1912, to the commission's order of June 8, the five leading companies say:

The commission has advised these respondents that the rates it has proposed have been arrived at upon the following basis:

The rate for a package of any weight is based upon an arbitrary allowance of 20 cents for the handling of the package by the express company or companies, regardless of the weight of the package, plus an additional charge which varies directly with the weight of the package. This additional charge is made up on the basis of a charge per 100 pounds, which is composed of an arbitrary of 25 cents per 100 pounds on account of service, such as use of stations, express messengers, risk and administration expenses, plus a haulage charge which varies with distance. For example, for a package weighing 100 pounds, the total rate is the arbitrary of 20 cents for the package, plus the arbitrary of 25 cents per 100 pounds, plus a haulage charge per 100 pounds for the distance the package is carried. . . . In zone 4

[6] 24 *Interstate Commerce Commission Reports*, pp. 431-432.

the arbitrary per 100 pounds is understood to be 55 cents instead of 25 cents.[7]

In determining the allowance for haulage, the commission took account of the differences in those conditions in different parts of the country that affect the cost of transportation, and distinguished five sections, which it designates as "zones," as follows:

> These subdivisions conform generally to those recognized by the rail carriers and which this commission has, in the consideration of freight rates, been led to believe were based upon actual differences in operating and traffic conditions. . . . Zone I, as it is called, is the territory north of the Ohio and the Potomac and east of the Mississippi, in which there generally obtains a lower grade of freight rates and passenger rates and express rates than elsewhere throughout the United States, and in which the population is most dense and traffic most abundant. Below this zone lies Zone II. To the west of the Mississippi lies Zone III, which generally takes slightly higher rates than the southern territory. This zone includes the upper peninsula of Michigan, as well as a portion of Wisconsin, because the conditions in these territories more nearly meet those immediately west of the Mississippi River than the conditions obtaining in the territory immediately adjacent in Zone I. To the west of Zone III, which extends as far as Denver, lies the great intermountain country, which as yet is but sparsely populated and as to which rates distinctly higher than the rates obtaining in any of the eastern territories should be made. The belt of states running along the Pacific Coast has been set apart as Zone V, conditions therein being different from those found in any of the other zones, their population being more dense and their conditions of transportation, all things considered, less expensive than in the zone immediately to the east.[8]

In general, the allowance for haulage is based on distance as measured in units of 50 miles along the shortest rail route, but with a slightly decreasing rate for the longer distances. Thus, according to the response of the five leading companies above cited,[9] for a haul of 50 miles, the allowance in zone 1 is 15 cents per 100 pounds. For a haul of 100 miles, the rate for each "block" of 50 miles is reduced 1/4 cent; for a haul of 150 miles, the reduction is 1/2 cent; and so on until the reduction amounts to 5 cents. Stated another way, for each additional 50 miles added to the length of the haul, the rate per 100 pounds for each 50 miles is reduced 1/4 cent until the distance amounts to 1,000 miles. For

[7] Response of Adams Express Co., American Express Co., Southern Express Co., United States Express Co., and Wells Fargo & Co. to the commission's order of June 8, 1912, made on October 9, 1912, p. 13.

[8] 24 *Interstate Commerce Commission Reports*, pp. 430-431.

[9] Appendix B, p. 28.

hauls of over 1,000 miles, the allowance per 100 pounds for each 50 miles remains unchanged until distances of 1,750 miles or over are reached. Then a reduction of 1 per cent is made for each 2 blocks, *i.e.*, every 100 miles or fraction thereof over 1,750 miles, until distances of 2,950 miles or over are reached, when the reduction amounts to 12 per cent. No further reduction is made for distances beyond 2,950 miles, or 59 blocks of 50 miles each.

While this plan for reducing the proportionate amount allowed for haulage as the distance increases is the same for all zones, the basic allowance for one block, or 50 miles, is different for different zones. In zone I it is 15 cents, decreasing to 10 cents; for zone II it is 20 cents, decreasing to 15 cents; for zones III and V it is 24 cents, decreasing to 19 cents; for zone IV it is 28 cents, decreasing to 23 cents. When the shipment is to be carried over part or all of two or more zones, the rate is the sum of elements computed for each zone. Each of these elements is the mileage proportion of what the rate would be for the entire distance within that zone.

This somewhat complex composition of the charges may be recapitulated thus:

For collection, delivery, and other expenses at the terminals, 20 cents per package.

For use of stations, express messengers, risk and administration expenses, 25 cents per 100 pounds.

For haulage, a charge per 100 pounds that diminishes slightly as the distance increases and differs in different sections of the country.

The Argument on the Commission's Methods of Constructing Rates

The express companies criticized the commission's schedule in two main respects: (1) the commission's plan of constructing the rates, and (2) the effect of the commission's schedule, as constructed, upon their earnings. On the method of constructing charges the analysis is minute and critical. Only the most significant points raised by the companies will be considered here.

The companies dispute the adequacy, in turn, of each of the allowances made by the commission for the several elements in the charge. The principal item of expense, aside from the cost of railway transportation, is what the companies designate terminal expenses. They object that the commission's allowance for this is

based on an underestimate, and they base their objection in part on their understanding that the commission depended upon data collected by the Adams Express Company for the years 1904-1907 for a limited number of offices. The companies state that these data omit important items, and that there is no evidence to show that this earlier experience of the Adams company is typical. The companies base their objection, further, on the ground that the commission's estimate from past experience, whatever its basic data, makes no allowance for the increase in costs that the companies assert must be expected in view of the steady increase of operating expenses in recent years.

The shippers answer this objection with deductions drawn from data in the record of the hearings. It is computed that the total operating expense, aside from payment to the railways, but "including the full proportion of taxes and interest at 7 per cent per annum on the company's property," was, for the Adams company, on August 18, 1909, 19.68 cents per piece; and for the United States company, on December 22, 1909, it was 12.72 cents per piece.[10] Since the data for the Adams company were compiled for a time of year when the proportion of heavier shipments is greatest, and the data for the United States company at a time when the proportion of light-weight shipments is greatest, these averages per piece might be assumed to represent closely the limits between which lies the yearly average cost per piece, aside from expense to the railways.

From returns for 11 companies in 1909, representing 98.9 per cent of the total revenue from express freight received by all 14 companies operating that year, it appears that the average operating expense per piece for all 11 companies, for the three months of April, August, and December, 1909, was 20.52 cents. To this should be added taxes amounting to one third of a cent, making a total average expense to the companies for operation (aside from the payments to the railways) and taxes of 20.85 cents per piece.[11]

Another computation made by the shippers on the basis of data reported by the American Express Company to the commission indicates that the part of operating expenses designated as terminal expense averaged, for the year ended June 30, 1911, between 13 and 15 cents per piece.[12]

[10] *Brief for Express Rates Conference*, p. 45.

[11] *First Annual Report on the Statistics of Express Companies, for the Fiscal Year 1909*, p. 19.

[12] *Brief for Express Rates Conference*, p. 46.

Further citation is made by the shippers from the statistics of the cost of delivery for department stores in 17 cities in different parts of the United States. The average cost per package for these deliveries ranged from 4 to 7.47 cents, the latter being in Manhattan borough, New York city. On this basis, the cost of both collection and delivery would not be double these figures because collections are made along with deliveries. Yet, in any case these data do not indicate the necessary terminal expenses of express companies, because the collection and delivery of shipments is only part of the work that must be performed on express shipments at the terminals.

This controversy is confused by a failure to separate two distinct points in dispute. One question is whether the charge covers the actual expense incurred by express companies; the other is whether it covers what critics of operating expenses may consider the expense of the companies ought to be. As to the first question, there has been no pointed inquiry concerning the average actual expense per piece or per shipment for a number of companies for a considerable period. Such an inquiry would be embarrassed by the difficulty of apportioning many joint expenses so as to determine the actual expense for collection and delivery, for other terminal service, and the like. The most comprehensive information is that above quoted for 11 companies for three months in 1909. But this is the expense as reported by the companies and probably includes elements of cost not properly chargeable to transportation of express matter. However, such data as are available point to the adequacy of the commission's allowance. The commission allowed 20 cents per package for terminal expense and 25 cents per 100 pounds for other costs excepting haulage. The average weight of express pieces is about 33 pounds. That would make an allowance of 20 cents plus about 8 cents, or 28 cents per package for all operating costs aside from railway expense for transportation. This 8 cents applies in part to expenses of the railways in providing terminal accommodations for the express companies; but, even allowing for that, the charge would be ample to cover the average cost per piece according to the data already quoted. Of course, the 8 cents per package of average weight becomes practically nothing for each of the numerous packages of small weight. But the average expense for these, as indicated by the comparative expense of the Adams and the United States companies above cited, is less than for the package of average weight.

The companies also criticize the schedule with respect to the distribution, among shipments of different weights and classes of traffic, of the burden of providing for the aggregate cost of the service and for a profit. The commission had objected to the graduate charges of the companies as without any determinable logical relation to each other and as so arbitrarily made as to put upon the smaller packages an undue proportion of the burden of the cost of transportation. The commission's graduated scales were prepared to meet both of these objections. But the companies criticize the new scales on the ground that, while reducing the burden on the small packages, they make no other provision for bearing it, and thus would cause a loss of revenue of $15,000,000 on present business on this account alone. This the companies regard as a "conclusive demonstration that the burden of the cost of transportation is not, generally speaking, misplaced at present, because unless it is so placed, it cannot be placed anywhere."[13]

The force of this criticism by the companies depends largely on how the reduction of charges will affect the volume of traffic in these small packages, and, thereby, the cost of handling them. If there should be an appreciable increase in this traffic without a corresponding increase in operating expenses, the loss of revenue would not be experienced and the reduction of the proportionate burden on the smaller packages would be free from the companies' criticism.

Further criticism of the commission's method of constructing rates concerns matters of public policy. The rates, it is complained, "upset long-established traffic conditions" that have developed under rates adjusted to the necessities of traffic. This criticism, of course, depends upon the prior question whether rates for an express transportation service should materially depart from uniformity in order to suit special local and industrial situations. Again, the companies criticize the commission's rates per 100 pounds because they

> afford repeated instances of a disregard of the principle of the statutory prohibition [of the discredited long and short haul practice] and also of a disregard of the principles upon which the commission, upon application of the carriers, has made exceptions,

and because, indeed, the factors employed in the formula

[13] *Brief for Five Leading Companies*, p. 57.

compel violations of the long and short haul principle. For example, in Zone I, under the sub-block formula, the rate from a place in the extreme southeast of one main block to a place in the extreme northwest of the next main block to the west must be 90 cents, whereas to the nearest places in the next main block still further west the rate can be only 75 cents. The same situation arises in all other zones with respect to places similarly situated.[14]

Another criticism by the companies is that, in some cases, the commission's rates, and in frequent cases, the haulage proportion of the rates, is lower than the first-class freight rate. From the examples cited by the companies, it would appear that this situation is probably due to exceptionally high freight rates made to meet exceptional conditions of traffic or cost of transportation. In such cases, the commission's rates may be defended on the ground that public policy is opposed to an adjustment of express rates to local and market conditions to the same degree as freight rates. But there remains the practical consideration that such situations as the companies cite will tend to transfer all first-class freight from the freight service to the express service. This raises another question of public policy as to whether all first-class freight between these points should be carried by express service. However, the volume of traffic concerned in these cases is probably very small.

Another criticism much emphasized by the companies is directed at the practicability of the commission's minute gradation of charges according to weight and distance.[15] The effect of this feature of the commission's schedule is to increase the number of different charges in the graduate scales from 1,281, as found in the companies' scales, to 28,940. That is, on the

[14] *Brief for Five Leading Companies*, p. 49.

[15] The companies' rates per 100 pounds, on which their graduate table is based, increase by 10 cents or 15 cents up to $2, then by 25 cents up to $5, and by 50 cents when over $5. In all there are only 54 different base rates per 100 pounds. But the commission's schedule grades the 100-pound rates, from the lowest to the highest, by increases of five cents. This creates 294 different rates in place of only 54. Further, under each of the companies' base rates there are only from 10 to 20 different charges for packages ranging from 1 pound to 100 pounds. But the commission's graduate scales aim to adjust the charge to each increase of 1 pound between those limits. Except in a few instances, where the charge is the same for different weights in order to avoid fractions of a cent, the commission's charges increase with each increase in weight of 1 pound. Hence, instead of having not more than 20 different charges, under any one base-rate, the commission's scales have, in most cases, as many as 100 different charges.

average, for each charge in the companies' graduate scales the commission substitutes about 23. The significance of these changes is that they increase the number of different charges that must be carried in memory, so as to be at instant command, by the clerks who assess the charges on the way-bills.[16] Therefore, either these clerks will make more errors in billing or else they will have to take time much more frequently to consult the printed schedule of charges. This, of course, will reduce the speed of the clerks in getting express matter dispatched with promptness. The loss of speed might be avoided, in part at least, by employing a large number of clerks. But that would involve an appreciable increase in terminal expenses per package. Indeed, the companies contend, such increase in expense would result even if no more clerks were employed. For the number of pieces each clerk can handle under the commission's schedule of charges would be reduced.

Argument on the Effect of the Commission's Schedule: Revenues

While many of the points raised by the companies against the commission's method of determining charges are important, the crux of the issue is the collective effect of the charges on the companies' earnings. As to this, the companies claimed that their revenue would be disastrously reduced. The commission directed the companies to apply the proposed rates to some one or more day's business and report the effect the proposed rates would have upon the revenues from that business. The companies all selected October 23, 1912, for this test. The five leading companies found that the revenue would have been reduced 18.25 per cent.[17] This would amount to $26,027,341 on the basis of the gross revenues for the year ended June 30, 1912. Or, applying the same

[16] The bulk of express traffic originates at the large cities, where the major part of it is delivered to the companies late in the afternoon for dispatch on evening trains. The sorting of the flood of packages according to their destination, and the making out of a way-bill with the charge for each shipment, has to be done under great pressure for time. Special clerks are assigned to the billing of shipments. And each of these clerks is assigned to shipments for some particular restricted territory in order that he may not need to be familiar with more than a limited number of different charges, which soon become fixed in his memory. Under the commission's schedule, the greater number of different charges will make it more difficult for bill clerks to carry the charges in mind with certainty.

[17] *Brief for Five Leading Companies*, p. 81

percentage to the gross revenues of all nine respondent companies for that year, the loss of revenue would be $27,686,415. While the commission's schedule is generally lower than the companies' charges, in many cases it is higher. But, in making their estimate of the probable revenue under the commission's schedule, the companies assumed that they would not be able to raise their existing charges. Further, the companies assumed that they would have to reduce all intrastate rates that were inconsistent with the commission's interstate rates in the same region.

In response to the companies' claim that the commission's schedule would cause a reduction of revenue to the extent noted, the shippers deny the conclusiveness of the reported test on the basis of the business done on October 23, 1912. In the first place, the shippers contend that test is unreliable. And in this they were supported by the Interstate Commerce Commission. It was found that all of the companies responding reported a revenue for October 23, that was appreciably in excess of the average daily revenue for the fiscal year ended June 30, 1912. For all nine respondents, this excess amounted to 12.27 per cent. For the five leading companies it was 12.64 per cent.

This excess revenue per package might result from an increase in rates, or an increase in average weight per package, or an increase in average haul per package, or an increase in the proportion of high-class traffic taking higher charges. There had been no increase in rates or charges for the day in question. The average weight per piece on October 23 showed no appreciable change from the average weight for the three months in 1909. The comparative average weights and the per cent of change are shown in the table on page 842 in connection with the per cent of the excess in the average revenue per piece on October 23 over the average for the three months of 1909.

Counsel for the shippers concluded from these facts that the increased average revenue per piece on October 23 must have been due to an increase in the average haul per piece on the day selected for the test. The commission notes, however, that this excess in average revenue per piece may be due to an abnormally large proportion of merchandise traffic, which takes higher charges than other classes of traffic. In this connection, it makes comparison with data for another day's traffic carried by the Adams company and the United States company. The returns by the United States company for October 23, 1912, show that the revenue from mer-

Comparison of the difference in average weight per piece with the difference in average revenue per piece, for October 23, 1912, and for 3 months of 1909, for each of 9 respondent companies.[1]

Name of company	Per cent by which the average weight per piece on Oct. 23 differed from the average weight for 3 months of 1909		Per cent by which the average revenue per piece on Oct. 23 exceeded the average revenue per piece for 3 months of 1909
	Greater	Less	
Adams Express Co.		3.1	12.8
American Express Co.	16.2[2]		15.2[2]
National Express Co.	1.3[2]		40.9[2]
Globe Express Co.		2.5	72.1
Great Northern Express Co.		1.0	55.3
Northern Express Co.		1.0	21.6
Southern Express Co.		6.2	1.1
United States Express Co.	3.8		18.1
Wells Fargo & Co.		1.5	10.3
Western Express Co.		9.0	33.1

[1] Based on data in the decision of the commission, 28 *Interstate Commerce Commission Reports*, pp. 146-147.

[2] The American Express Company and the National Express Company reported separately for the 3 months of 1909, but as one concern for October 23, 1912. The percentages shown here were found by comparing the combined report for October 23, 1912, with the report of each for the 3 months of 1909.

chandise rates was 75.81 per cent of its total revenue for that day. But on December 22, 1909, in the midst of the heavy Christmas business, when the greatest possible revenue from merchandise rates is obtained, the revenue from that source was only 69.98 per cent of the total revenue for that day. The figures for the Adams company do not afford equal support to this criticism. The commission notes, that the Adams company reported for October 23, 1912, revenue from merchandise rates amounting to 78.73 per cent of the whole, while on August 18, 1909, its revenue from merchandise rates was only 68.2 per cent of its whole revenue for the day.[18] But August is probably the time of year when the proportion of merchandise shipments is lowest. Hence, there would normally be a larger proportion of merchandise traffic in October than in August. The difference noted is only something over 10 per cent and may well represent no more than the usual increase in merchandise business.

Whether the abnormal revenue per piece on October 23 was due

[18] 28 *Interstate Commerce Commission Reports*, p. 146.

to unusually long hauls on that day, or to the unusually large proportion of merchandise traffic, either abnormality in the traffic for that day would produce an exaggeration of the actual reduction in revenue that would follow the application of the commission's schedule; for the commission's reductions are heaviest on the charges for the longer distances and for merchandise traffic. The commission summarizes the situation in these words:

> So for this day in October (a month which produced over one tenth of the amount of the gross revenue for the preceding fiscal year) the commission is presented a showing which indicates 12 per cent more revenue than the daily average for that year, and from 6 to 10 per cent greater return from merchandise rates than upon normal days. It is also shown, as the basis for estimated reductions in revenue, average revenues per piece which exceed the averages of the three months by from 1 per cent to 72 per cent, and is asked to conclude therefrom that the proposed rates are too low.[19]

Analyzing further the returns for October 23, 1912, the commission points out that, according to the returns made by the companies for that day, the average revenue per piece that would have been produced under the commission's schedule, was in the case of six of the nine respondent companies, slightly greater than the average revenue per piece for the three months in 1909, and, for the remaining three companies, it was slightly less. So that, when all individual or local variations are smoothed out, the average revenue per piece under the commission's schedule would be about the same as that received by the companies in 1909.

From its examination of the returns made by the companies for October 23, 1912, the commission arrived at these alternative conclusions:

> It may be said that the business for October 23 was abnormal, and that is the conclusion forced by analysis of the figures presented by the respondents. If this be the accepted conclusion, then the elaborate estimates of loss based upon those figures lose all persuasiveness. If this conclusion is not accepted, however, and the business of this day is regarded as normal, then it appears that the earnings per package at the proposed rates would not have been greatly below the actual average returns per package for the three months in any case, and that as to six of the nine respondents the returns per package for the day at the proposed rates would have been in excess of the actual average returns for the three months at the companies' rates.[20]

This second conclusion is hardly final, as to the reasonableness

[19] 28 *Interstate Commerce Commission Reports*, pp. 146-147.

[20] *Ibid.*, pp. 147-148.

of the commission's schedule, because the companies allege that their expenses have steadily increased in recent years. It is conceivable that an average revenue per piece equal to that of 1909 would be inadequate at the present time because of increased expenses per piece. However, the commission gives consideration later to the companies' claim that their expenses forbid a reduction of revenue.

Besides the matter of the abnormal character of the business on October 23, 1912, the shippers reject the test of that day on the further ground that the reduction of charges would stimulate an increased business without a corresponding increase in expenses, and that any conclusion from actual business done in the past does not take this into account. The only conclusive test, contend the shippers, is a trial on the basis of the actual charges proposed. To support their position in this matter, counsel for the shippers cite the well-known fact that a reduction of the price or charge for any commodity usually increases the demand for it. In the case of express, it is pointed out that the source of the increase in traffic is not limited to the potential traffic that is not now shipped.

> The express companies have, in addition, the package business now carried by freight to draw from through reduced rates. The railroads have said that this package freight is unprofitable to them. Express business is principally for small packages; freight, for bulk traffic. One result of the new rates may be to readjust this business to some extent, both in the interest of the express companies, and of the railroad companies.[21]

Further support for their contention that there would result a compensating volume of new business without proportionate increase of expense is urged by the shippers in the experience of the express companies under the reduction of rates in the state of Nebraska. The new rates went into effect May 1, 1908. The revenues from intrastate business for the five companies[22] operating in Nebraska showed in the year ended June 30, 1909, an increase of 9.5 per cent; for the following year, 26.5 per cent; and for the year ended June 30, 1911, an increase of 33.9 per cent. Expenses on account of both intrastate and interstate business of these companies decreased in the year ended June 30,

[21] *Brief for Express Rates Conference,* p. 19.

[22] Pacific Express Co., American Express Co., Adams Express Co., United States Express Co., and Wells Fargo & Co.

1909, 15.8 per cent; in the following year, 7.0 per cent; and in the year ended June 30, 1911, they increased .6 per cent.[23]

With respect to the experience in Nebraska, the companies claim that the stimulated increase was "practically all with respect to general specials, which have been drawn from the railroad freight business or attracted to intrastate markets because of the very low rates;" that the increase in merchandise traffic was no more than the normal increase from year to year; and that, therefore, this particular experience cannot apply to the schedule of the Interstate Commerce Commission because that schedule does not contemplate any appreciable reduction in general specials, but makes drastic reductions in merchandise traffic.[24]

Further, the companies claim that it would be impossible for the loss of revenue that would result under the commission's schedule to be compensated by new business. In the first place, the competition of the parcel post will prevent the companies from gaining any new business and will even take away part of the business they now have. In support of this contention the companies gave the results of a comparison of their revenues for January and February in 1912 and for the same months in 1913 on the traffic from their more important offices. These results are summarized in the following table:

Per cent of increase, or decrease, in express revenues for January and February, 1912, under competition of the parcels post.[1]

Name of company	Approximate per cent of total business represented by offices reporting	Per cent of increase, or decrease, in revenues in 1913 from revenue in 1912, for			
		January, 1913		February, 1913	
		From traffic 11 pounds or less	From all traffic	From traffic 11 pounds or less	From all traffic
Adams	30.	— 17.8	+ .1	— 29.8	— 6.4
American	85.	— 19.0	+ 3.9	— 27.4	— 3.7
Southern	33.	— 13.4	+ 9.1	— 23.6	+ .1
United States..	45.	— 14.2	+ 3.6	— 19.9	— 4.5
Wells Fargo...	65.	— 15.2	+ 2.6	— 24.8	— 5.8
All companies..		— 16.6	+ 3.1	— 25.4	— 4.5

[1] *Brief for Five Leading Companies,* pp. 4 and 7.

But, even supposing the influence of the parcel post to be absent, the companies claim that any increase of business that

[23] From data in *Brief for Express Rates Conference,* p. 50.

[24] *Brief for Five Leading Companies,* p. 28.

might result could not compensate the loss of revenue on account of the reduction of the charges. It would require, according to the companies' estimate, an increase of over 22 per cent, which is more than the greatest possible increase of business that can be contemplated.

It has been already indicated that the companies' estimate of the loss of revenue is too great. The increase of business necessary to compensate the loss on account of lower charges would thus be less than 22 per cent. But, even so, it is a fair question whether the increase would be sufficient to recover that revenue in the face of competition by the parcel post. It must be remembered that the increase in business must be sufficient not only to recover the loss of revenue, but also to compensate any additional expense caused by the additional business. Before this question can be answered, allowance must be made for the effect of the changed factors in the situation upon the operating expenses of the companies.

Before entering upon that subject, it is in point to record that the commission called the attention of the companies to the volume of traffic carried by them free of cost for the railways and for each other, and in the form of returning empties for shippers. On this matter the commission said:

While it may be that the franks issued by them are within the law, nevertheless the expense of this portion of express business is not legitimately to be charged to the paying patrons. It must be treated as a gift from the stockholders of the respondents to the favored holders of the franks. The amount of this business was not fully reported for October 23. What was reported, however, when computed on the basis of the average charge that accrued on the revenue packages, indicates the possibility of a substantial addition to the yearly revenues without injustice to any one.

The losses in revenue from this free service, calculated according to the method used by the respondents in estimating the reductions of revenue under the commission's rates, are shown to be over two millions of dollars, if account be taken of only the incomplete showing of free service made in the returns for October 23.[25]

On the matter of returning empties free, the companies claim that wherever this is done, it is a concession required in order to move the traffic in which the containers are used. It applies mainly to shipments of bread and laundry. As to the free service for railroads, the companies claim that that is part of the consider-

[25] 28 *Interstate Commerce Commission Reports*, pp. 150-151.

ation in their contracts, and that if this service were charged for, their percentage contracts would have to be on a higher level.

Effect of Commission's Schedule: Operating Expenses

On the question of operating expenses, the companies claim that if, on the one hand, the revenues fall off under the commission's charges, there will not be a corresponding reduction of expenses, because there will be no reduction of traffic except as the parcel post takes it away; and so far as the parcel post does this, the expenses will not decrease in proportion to the reduction of revenue, because the established organization for handling the traffic cannot be cut down in proportion to the reduction in traffic. On the other hand, if the traffic is increased under the stimulus of the lower charges, the increase will entail a more than proportionate increase of expense. This would follow, the companies believe, because

> the operating expenses have increased in recent years to a greater extent than the business has increased, and there is no basis whatever for the assumption that an increased business would not involve a corresponding increase in expense.[26]

The issue between the companies and the shippers over the probable revenue under the commission's schedule appears to center on the question of operating expenses. It is certain that the commission's lower charges will stimulate business not now carried. It is equally certain that the competition of the parcel post will offset this new business in part at the outset, and possibly altogether as reductions in rates and extensions of the service may be made in the future. But, in either case, the net earnings—which are the significant factor—will depend on whether an increase of business will necessarily entail a more than proportionate increase of expense, or a decrease of business will unavoidably be accompanied with a less than proportionate decrease of expense.

This is a speculative question that can be strongly argued on both sides. The argument that expenses would not be reduced in proportion to any eventual reduction of business, because the established organization and plant must be maintained in all its essential features, implies that operating expenses are comparatively inelastic. If that be so, then it militates against the claim of the companies that an increase of traffic would entail a proportionate increase of expenses. And yet the companies contend that

[26] *Brief for Five Leading Companies,* p. 29.

this would result because of the unavoidably congested conditions of the terminals in the great cities, through which such a large proportion of express matter must be handled, and because, under the greater number of different charges that bill clerks must use under the commission's schedule, the cost of billing shipments would be increased.

This raises the question as to whether the expenses of express companies might not be reduced through greater efficiency or through a reorganization of the service. The Interstate Commerce Commission has not made any suggestions of this sort, but it has questioned the accuracy of the companies' reports of expenses assignable to transportation. The commission examined expense accounts of the Adams company for August, 1909, and of the United States company for December, 1909. It found sufficient entries not properly chargeable to transportation expense to reduce the recorded expense of the Adams company 8.5 per cent and of the United States company nearly 8 per cent.[27] This would more than offset the Adams company's estimate of its operating deficit under the commission's schedule, and would nearly offset that of the United States company. The claim of the companies that expenses, including payments to the railways, are steadily increasing faster than revenues, in spite of the elimination of erroneous entries, the commission considers to be without significance, on the ground that, under the percentage contracts with railroads, this result can be produced whenever the contracting parties so desire.

Turning to the argument urged in support of the belief that express companies' expenses are needlessly high, the possibility of economizing in operating expenses is suggested, for one thing, by the comparison of the operating ratios of different express companies. Differences are found from company to company so great as to intimate that something besides differences in character of traffic, length of haul, or other local influences are at the bottom of them. Moreover the possibility of increased efficiency is suggested by the fact that labor comprises probably three fourths of the operating expense of express companies, aside from payments to the railways. This may be said notwithstanding the fact that express employees are scattered and hence do not admit of that degree of organization attainable with large numbers of men concentrated in one establishment.

[27] 28 *Interstate Commerce Commission Reports,* pp. 148-149.

The most promising argument that operating expenses could be reduced is directed at cutting down the amount of work now performed upon each package or shipment. At the present time, for every shipment the forwarding agent has to make out a way-bill. On this he enters the name of the consignor, and the date of shipment, the name of the consignee and the destination, the weight and description of the shipment, and the serial number of the package for the day of shipment. This way-bill accompanies the shipment and is checked against it by every responsible employee through whose hands it passes on its way to destination. Meanwhile the forwarding agent has to send to the office of the company's auditor a report giving full information on every way-bill issued by him. At the other end of the line, the receiving agent, after checking the way-bill against the shipment, forwards it with his report of way-bills received to the auditor's office. In the auditor's office, the way-bill is then checked against the report from the agent at the point where the way-bill originated. In the case of shipments carried by more than one company, much of this work is duplicated by each company that handles the shipment. And, besides, the total charge is pro-rated, or apportioned, to the several companies. This has been the method employed by the express companies without essential change for a generation. Obviously, the total amount of clerical labor performed upon each shipment entails a very considerable expense.

This expense is made still greater by labor incidental to the method of paying railway companies for transporting express traffic. The practice is now pretty universal of allowing the railways an agreed percentage of the charge received from each shipment. Hence, to ascertain the railway compensation, each express company must further apportion the charge recorded on each way-bill between itself and the railways over which it operates. If more than one railway has participated in the service, the railway share of the charge must be pro-rated to each of the railway companies. Plainly, a considerable part of the charge on each shipment is required to pay the cost of all this bookkeeping labor.

Express men justify this laborious method of handling shipments on the ground that it is necessary to have a sure record for locating loss, or damage, or dishonesty on the part of employees, in order to guarantee shippers security for their property. On the face of it, this point would seem to be well taken. But there is, notwithstanding, a surprising number of complaints of shipments

that do not reach the consignees, or that are unaccountably damaged in transit, and some amount of such losses must inevitably result from the haste and tension under which the traffic must be handled. These conditions make way for the human element in spite of all precautions, and open opportunities for mistakes and for clever employees to profit by dishonesty. So the question has arisen whether this laborious machinery is not too refined for the degree of security attainable under the conditions that are inseparable from the nature of the express service; whether the cost of the additional security attained by it is not far in excess of the losses that it saves. And it is urged that some less costly method of handling traffic might be devised without incurring more risk to shipments than is inevitable in the nature of things. In this connection, reference is usually made to the fact that the express service in European countries has no such complicated accounting system, and that the post office manages to keep the loss of mail matter down to a minimum by a system of inspection and surveillance, which the express companies have to adopt in part anyway. It is also said that, while the parcel post experienced numerous instances of loss and damage at the outset, many very large shippers now say their losses are no greater than those they experienced with the express service. If it be deemed essential to retain some means of identifying each shipment in the accounts, it has been suggested that some system based upon the principle of the baggage check would satisfy this requirement at much less expense than the present way-bill system. An enormous amount of duplicated labor in apportioning the charges on through shipments could be obviated by a form of central accounting office analogous to the clearing house of English railways.[28] But, it is certain that, for many shipments, the doubly sure safeguard of an individual record for each shipment would not be sought by shippers, providing the charges could be reduced by the amount of the saving that would result from omitting it. And there are many other shipments for which shippers would prefer insurance under private insurance agencies, if the express companies eliminated their costly safeguards and reduced their charges accordingly. Even if the percentage of losses increased somewhat, shippers of a great part of the express traffic would probably find their increased loss more than compensated by the saving in their annual express bill. Ship-

[28] Unsigned article, "What is the Matter with the Express Companies," in *Business America*, October, 1912.

ments of greater value or importance could be given the safeguard of individual registration and record of transit in consideration of an additional charge, as is now done with express packages of higher value, and with registered mail.

Most express men view all suggestions that involve a departure from the way-bill system as utterly unthinkable. But it is a fair question whether the really unthinkable thing is not rather the proposition that a feature of business organization, which has remained unimproved throughout the whole development of the express business, must be accepted as fixed and unimprovable for ever and ever, in spite of the fact that other agencies here and abroad have developed a similar service without that cumbrous feature. It is not unreasonable to hold the suspicion that express men are controlled by an inertia of habit, formed and continued in because of the absence of such competition as develops the utmost simplicity of service and economy of operation. To be sure, all companies feel some competition and they are all under pressure to secure the largest possible profits. But the express business is not one that has had to develop under the stern discipline of the ordinary competitive struggle for the survival of the fittest.

There is an impediment to the fullest possible realization of the remedy suggested in the nature of the payment to the railways for the transportation of express matter. Originally, the express companies paid the railways, just as any ordinary shipper, on the basis of the tonnage carried. But, it is claimed, with the increase in the volume of business, the computation of the payment on the basis of weight and distance became cumbersome and a cause of endless controversy between the companies and the railways over the amount of tonnage actually carried and over the relative rates that should apply. Gradually this basis of payment gave way to a percentage of the charge collected by the express companies. The percentage basis being thus established and being dependent upon certain data on the way-bill, if the way-bill be dispensed with in the interest of economy, it will still be necessary to record for each shipment the amount of the charge, the points of shipment and destination, and the route traversed. If this be continued, the possible economy in dispensing with the way-bill will be greatly reduced.

This is not an insuperable difficulty, because a system of identification of shipments on the principle of the baggage check, for example, would, through the record of the charge on each check,

supply all the data necessary for the computation of the percentage payment. Yet, although not a vital difficulty, it strengthens the opposition to any departure from the way-bill as the basis of express accounting.

This difficulty, in turn, is met with proposals for a more economical basis of railway compensation. It is believed by many that some other basis can be devised that would be just as equitable and automatic in its application without requiring the enormous amount of accounting labor in the computation. In this connection, there is urged the space basis, which takes account of the amount of car space occupied and the distance through which it is occupied. This is open to the objection that it neglects the considerable differences in amount of weight that has to be hauled in equal amounts of car space. The element of weight, on the other hand, is recognized in proposals that adopt the principle of railway mail pay, which takes account of weight and distance. It does this, not for each shipment, but by periodic measurements of the average weight carried over fixed distances. This basis meets the objection that it takes no account of the enormous amount of dead weight in the car itself that must be hauled in order to carry the express matter in the car. Compensation would vary with the amount of weight carried, but by no means with the total amount of weight hauled. Other proposals seek to combine these two bases in a system of compensation that would recognize both the car space that must be hauled, regardless of the weight carried in it, and the amount of weight carried in that space.

Payments to the Railways

Another point of attack in the present cost of express service is the payment to the railways. The shippers complain that the railways receive excessive compensation per ton-mile from light-weight shipments and from all shipments that go short distances. This criticism gets a footing in the practice of the express companies, under the percentage form of contract, in fixing their charges to the public so that, after the railway receives its percentage of each charge, the part remaining to the express company will be sufficient compensation for its service. By thus segregating different parts of the whole traffic—all subject to the same uniform percentage rates of railway compensation, but subject to express charges that are equivalent to different rates per pound or per mile—and by comparing the respective revenues from the different parts, it can be made to appear that the railways' share of the

charge on short-distance shipments and on light-weight shipments is unreasonably high. Of course, *per contra*, the express companies' share of the charges on long-distance shipments and on heavy shipments appears unreasonably high. But it is clear that these criticisms rest on the false assumption that the uniform percentage rate is adopted as representing a reasonable division of the charge on each individual shipment separately considered, instead of being an average division of all the charges that would otherwise be divided on the basis of a different percentage for different classes, weights, and distances. In such case, the railways would insist upon higher percentages for the heavier weights and the longer distances, while the express companies would insist upon lower percentages for lower classes, lighter weights, and shorter distances. But for the sake of greater simplicity in accounting, there is applied to all shipments a uniform percentage that will secure to the railways an aggregate revenue that will compensate them for their aggregate service and will reach the same result that would be secured under a more complicated schedule of different percentages for different shipments. If the express companies should abandon their practice of fixing charges as above described, and should make each part of the charge proportionate only to the actual service rendered by the railway and the express company in each case, though still fixing all of the charges on a level that would yield the same gross revenue for a given volume of tonnage as now, the charges to the public would be considerably readjusted; but the aggregate railway revenue from express and the average railway express revenue per ton-mile would be exactly the same as now. This criticism of the shippers is thus, in effect, not a criticism of railway express revenues, but of the express companies' method of constructing their charges with reference to the percentage contracts with the railways.

But the shippers criticize the railway revenues in the aggregate, also, and with respect to the average per ton-mile on the whole traffic. They find from data in the records of the hearings that the average revenue per ton-mile received by the railways from the Adams company on August 18, 1909, was 7.8 cents; and from the United States company on December 22, 1909, 7.3 cents.[29] These results accord with other estimates of average railway express revenue per ton-mile. The shippers then compare them with the average freight revenue per ton-mile namely, 7.5

[29] *Brief for Express Rates Conference,* p. 31.

mills, and make the statement that "for hauling express matter the railroads are paid ten times as much per ton-mile as they receive from freight." This sort of comparison, however, can be of little service in testing the reasonableness of railway express revenue because of the very great difference between the character of the traffic and service to which 7.5 mills applies and the character of the traffic and service to which the 7.5 cents applies.

A more consistent comparison is made by the shippers when they set over against the railway express revenue actually received in certain cases the revenues that the railways would have received in those cases on the basis of twice the first-class freight rate. These computations show that the railway express revenue was 3.3 times the first-class freight rate in the case of the Adams company on August 18, 1909; 3.26 times the first-class freight rate in the case of the United States company on December 22, 1909; and 2.76 times the first-class freight rate for the Adams company on October 23, 1912.[30] The shippers then proceed to argue that, if the railway revenue were but twice the first-class freight rate, then the commission's schedule of charges would leave the express companies ample net revenue to constitute a reasonable profit.

This is an argument that a reasonable compensation to the railways for carrying express matter would be that which, on the average, should equal twice what the revenue would have been from the first-class freight service. In support of this position, the shippers cite a rate on the Chicago, Milwaukee, and Puget Sound Railway on which certain articles are carried on passenger trains from Tacoma and Seattle to points in New England, the North Atlantic States and Ohio, and to other points in the West and South. This rate is $4 per 100 pounds, while the regular rate by freight service on the same articles varies from $1.25 to $3 per 100 pounds.[31] This, however, is not sufficient to prove the point. The rate is made, apparently, to meet certain traffic conditions in the import trade from the Orient.[32] Such a rate is by no means an indication of what the railroads could afford to carry express matter for between any and all points in the United States.

[30] *Brief for Express Rates Conference,* pp. 33 and 35.

[31] *Ibid.,* pp. 38-40.

[32] The articles enumerated in the brief for the shippers are dry goods (n.o.s.), grass, reed or rattan furniture, alcoholic or spirituous liquors, straw or palm-leaf hats, linen goods in packages of valuation of $900 or more for 40 cubic feet, vegetable oils in packages, raw or spun silk, earthenware, toys, fireworks, paper articles.

Another statement urged by the shippers in support of their claim that twice the freight rate would be adequate pay for the railways, is that:

> In New England, influenced by the Massachusetts law, which requires a railroad to give equal express facilities to all, the railroad express rate for passenger train service is as low and lower than the present express rates, considerably lower than the commission's rates, and only a very little higher than double the first-class freight rates.[33]

But, here again, the facts cited pertain to special traffic situations. This rate appears to be an involuntary one on the part of the railroads, since it is "influenced by the Massachusetts law." Even if a voluntary rate, it applies to a densely populated section. It does not appear to be extensively used except for purposes of distribution from a large center like Boston, and it does not cut into the service of the express companies to an appreciable degree, because it does not include the collection and delivery of the shipments. Obviously, the railroads can afford to render such a service under all these conditions and yet be quite unable to afford the same service generally and for a large volume of traffic. It should be noted also that the railway express revenue in New England is lower than elsewhere in the United States, because the percentage paid to the railways is lower and the express rates themselves are lower. This situation has been created to meet the special traffic conditions prevailing within the New England states.

On the whole, whatever might be said for this claim of the shippers, namely, that twice the first-class freight rate would be ample compensation to the railways for hauling express traffic, the support offered in their argument is altogether too special in character and too limited in scope to establish their claim.

The express companies filed an additional response to the order of the commission requesting an application of the commission's rates to some one or more day's business, that was designed to show that the existing express rates were no more than, if they were as much as, fair compensation for the joint service performed by the railways and express companies. In connection with this showing, the companies presented a table intended to indicate the rate of return on the joint property of the railroads and express companies used in the express service. These rates varied from 1.95 per cent to 5.32 per cent for the five leading companies, and averaged for those companies 3.41 per cent. Since the rate of

[33] *Brief for Express Rates Conference,* p. 40.

return on the value of the express companies' property is well in excess of those rates, it may be argued that the rate of return secured by the railroads on the portion of their property used for the express service must be even less than these rates. But the argument is invalidated by the fact that the apportionment of railway property to the express service was made on the basis of the railway revenues from the express service as compared with other revenues. Of course, this basis of apportionment would have the incidental effect of tending to justify whatever revenues were actually received. Further, there is no acceptable valuation of the railways' property for apportionment to the express service. No defense of railway express revenues can be drawn from this showing.

Another defense of railway express revenue may be made along the line of an argument offered in the hearings before the commission. It was held, in the first place, that the investigation conducted by the Post Office Department in 1909 into the cost of carrying the mails made the incidental disclosure that the aggregate railway express revenues of nearly all the railroads of the United States for one month were 9.66 per cent of the total revenues from the passenger service;[34] while the car space, computed in car foot-miles, occupied by the express traffic was 10.67 per cent of the total car space in the passenger service for the month in question.[35] The fact that the railway express revenue was a smaller percentage of the total revenues from the passenger service than the percentage of total car space used for the express service, is held to indicate that the railway express revenue is not an undue proportion of the revenues from the passenger service, considering the relative proportion of that service used by express companies. The argument then points out that the revenues from the passenger service as a whole are far from being excessive. From the results of the same investigation, it appears that the operating expenses and taxes chargeable to the passenger service, assigned

[34] The month of November, 1909, was selected for this investigation, but, in the case of some railways, the data secured were for the following December or January. The railways represented in this investigation covered 77 per cent of the railway mileage and 88.9 per cent of the total length of all postal routes.

The data on the revenues for the one month were reported only by the railways' Committee on Railway Mail Pay.

[35] This is the figure reported by the Committee on Railway Mail Pay; the Post Office Department reported 10.66 per cent.

by the Post Office Department substantially on the basis employed by the Wisconsin Railroad Commission in *Buell* v. *Chicago, Milwaukee & St. Paul Railway,* consumed not less than 76.4 per cent of the passenger revenue.[36] Considering that the operating expenses and taxes for the whole railroad service for all the railways of the United States consume something less than three fourths of the gross revenues of the railways, this ratio for the passenger service indicates that the revenues from that service are less remunerative than all other railway revenues, and therefore are not excessive. The conclusion is then drawn that, if passenger revenues are not excessive, and if the railway express revenue is not an excessive proportion of the whole passenger revenues, the railway express revenue cannot be excessive.

This argument involves the assumption that railway revenues from all other sources than the passenger service are not excessive. Since that is disputed by some, it will be of interest to consider a finding of the Wisconsin Railroad Commission. In the case of *Buell* v. *Chicago, Milwaukee & St. Paul Railway,* that commission found the passenger fare could not be less than 2½ cents a mile if the companies were to secure a fair return on their property used in the passenger service in Wisconsin. At that rate of fare, the ratio, for the different companies, between the passenger operating expenses plus taxes and the gross passenger revenues is shown in the following table in connection with the rates of return (interest plus dividend) that the Wisconsin commission found would be realized on the property used in the passenger service under the above rate:

Comparison of the ratio of operating expenses and taxes in the passenger service to passenger revenues, with the rate of return on the investment for the passenger service.

Railway	Ratio of operating expenses and taxes to revenue	Rate of return on investment
	Per cent	*Per cent*
Chicago, Milwaukee & St. Paul	61.3	8.4
Chicago, St. Paul, Minn. & Omaha	71.0	5.5
Chicago & Northwestern	69.4	6.7

[36] Since the operating expenses and the revenues in question were not both reported by the same authority, there is an element of incomparability between them. But the percentage given was obtained from that construction of the data that gives the minimum percentage.

All these ratios are materially less than 76.4 per cent, and yet they allow a residual of revenues that yielded no more than 8.4 per cent return on the investment in any case. Of course, such indirect calculations as these do not prove that the railway express revenue is not unreasonable. But they establish a strong presumption to that effect.

From this perhaps too extended review of the evidence and arguments bearing on the question of express rates, it is impossible to draw any conclusion that is certain and indisputable. Much of the evidence consists of estimates into which enter, along with precise facts, assumption and expression of judgment. Much of the reasoning concerns probabilities of the future. Yet some sort of composition may be made of the forces of the different arguments in order to reach a judgment on the probable results.

Ignoring the parcel post for the moment, the probable situation under the commission's schedule may be thus summarized:

(1) The evidence establishes the presumption that the rates and charges fixed by the Interstate Commerce Commission would not cut down the revenue from any given volume of business by as much as the companies claim.

(2) The further presumption is established that the commission's rates and charges would stimulate a considerable increase of traffic.

(3) It is probable that this increase of traffic could be handled without a permanent proportionate increase of operating expense.

(4) It is probable that operating expenses, as reported by the companies, contain elements of expense not properly chargeable to the transportation of express matter.

(5) Considering these presumptions and probabilities, the conclusion is that there would be an adequate net revenue under the commission's schedule. This is not demonstrated; it is stated merely as the presumption indicated by the net significance of all the evidence.

Taking the parcel post into account, and considering the recent reduction in parcel post charges and the extension of the weight limit and the prospect of further reductions and extensions from time to time in the future, the situation may be described thus:

(1) The presumption seems to be established that the express companies can hardly recover their revenues under the commission's schedule in competition with the parcel post as that is now conducted; and that they cannot do so in competition with the

parcel post, if that service is progressively extended on the basis of rates such as those recently established. In the face of such competition the express companies would probably get that part of the traffic which demands collection service or the special care and surveillance in transit afforded by the express companies. But this probably would not be a large part of the whole traffic.

(2) It seems probable that any net reduction in the total volume of traffic, by reason of the competition of the parcel post, cannot be accompanied by a proportionate reduction of operating expenses if the express service is conducted as at present.

(3) Considering that the operating expense accounts probably contain elements of expense not properly chargeable to the express traffic, it seems barely probable that the companies can operate profitably under the commission's schedule in competition with the parcel post as that service is now conducted; but the companies probably cannot operate profitably under the commission's schedule in competition with the parcel post, if that service is extended on the basis of rates as recently fixed. Much less could they operate under the companies' charges that have been in effect hitherto.

Since the parcel post will be a factor in the situation, the question has been asked whether the Interstate Commerce Commission has not unfairly reduced the charges of the companies. On this question, the commission apparently considers only the ability of the companies to render their service on the proposed charges as independent agencies, without regard to the effect of competition. The companies claim that the effect of a loss of traffic to the parcel post will be to raise the cost of carrying the remainder, and that, therefore, a reduction of charges would unfairly create a deficit in the remaining business. But this question is sure to be answered from the viewpoint of the public economy, which considers only getting a satisfactory service for the lowest possible rate. If one of two competitors finds that, because of a division of the business with the other competitor, he cannot do his part of the business at prices as low as his competitor, the public, instead of paying the man a higher price, will transfer to his competitor all of the business as fast as he can handle it. Applied to the express situation, this means that, if the parcel post gives the service that the public wants at lower rates than the express renders the service, the public economy requires that the express companies give way to the parcel post instead of

charging higher rates on the business it continues to carry. To do otherwise would be, in the words of the Interstate Commerce Commission,

. . . equivalent to saying that inasmuch as shippers have been given the convenience and economy of the parcel post the express carriers must, on that account, be allowed to charge rates higher than would otherwise be reasonable. That is to say, the Commission is called upon to take from the shippers of the country all the benefit that they receive from the parcel post and give it to the respondents in the form of higher rates upon the remaining express business.[37]

And yet there is this plea for the companies. The above argument does not hold if the successful competitor secures the business on charges that do not cover every reasonable cost, including at least a moderate return to compensate his own effort. Much less does the argument hold if the successful competitor is the public's own agency and the deficit has to be made up out of general taxation. In view of the well-known incompleteness of the government's cost accounting, and in view of the serious attention that Congress is now giving to the contention of the railways that their compensation for carrying mails is inadequate, and especially so since the parcel post traffic has been added, it may be argued for the express companies that the competition of the parcel post does not rest on a sound economic basis. Therefore, if the public for other reasons of public policy sets its own agency to compete in that manner with the private agencies that heretofore engaged in its service, it should, in its regulation of those agencies, permit them to secure for such service as the public continues to ask of them, compensation that is fully adequate under all the conditions created by the government's competition.

Further, there is the fact that the parcel post does not now, and will not until some future time, afford a full alternative service to that of the express companies. If the public provides its own agency for a small part of the whole express service, and, by implication of the limits fixed upon the parcel post, looks to the express companies to perform the remaining major portion, the public ought to pay the companies whatever is fair for carrying that major portion considered by itself, and not considered as part of a whole of which the companies do not have the benefit.

If the above conclusions should prove to be correct, the express companies will have these alternatives under the commission's

[37] 28 *Interstate Commerce Commission Reports*, p. 151.

schedule: (1) They can reorganize their service and put it on the same plane, with respect to the individual attention given to shipments, as the parcel post, and afford a service of special quality for traffic that requires it. (2) They can restrict their service to a superior grade and trust to the superiority to attract all traffic for which such superior service may be required. In either case, they would have to seek for every possible means of reducing cost per unit of traffic.

(3) Still another plan much urged upon them is that of developing with the railways an intermediate service between freight and express, *i.e.*, some form of extra fast transportation, with collection and delivery, for less than carload freight that desires expeditious service, but cannot afford the express service. This service would be superior to that of the present fast freight lines, and would be much in demand by shippers. The railways have furnished it to some extent, excepting collection and delivery, between certain points, but cannot afford to develop such a service universally. It would be too much like using a steam hammer to crack a nut. When the traffic becomes comparable to a sizable forging, the railways can be used to advantage. The Interstate Commerce Commission noted this possibility in its first opinion in the case.[38]

The chief impediment to this sort of service is the matter of economical transportation. The suggestion contemplates that the traffic would not be carried on passenger trains. In that case, there could be no suitable train supported in part by other service. Special fast trains could not be economically operated unless the traffic were dense enough to fill them. It might be possible to use such trains on trunk routes, and to utilize certain accommodation passenger trains on branch routes for retail distribution from the main points along the trunk routes. This is the plan followed in France and Germany for their regular express service; but it would threaten the character of the passenger service on the branch lines. In any case, this sort of service would have to be restricted to cities and the more important towns.

(4) Another solution which is being tested by some companies is that of developing their "order and commission" departments into a general purchasing and marketing agency for the more direct distribution of products from producers to consumers. This contemplates a service that would provide consumers with information as to sources of direct supply and would accept orders from

[38] 24 *Interstate Commerce Commission Reports,* p. 432.

them for goods to be purchased, transported, and delivered for a charge that would cover all services. Many such activities are now carried on by express companies, and it would be possible to develop this retail department without undue expense. But it would find a sturdy if not an overcoming opposition from those merchants whose business would suffer because of such a new distributing agency. And that opposition could find effective expression in the form of a boycott with respect to the ordinary traffic of the company.

In conclusion, it looks very gloomy for the future of the express companies as carriers of small parcels. But they have an unexploited field to develop, without important competition, in the matter of an expeditious freight service with pick-up and delivery, and in the matter of purchasing and selling agents in retail distribution of goods. The development of these fields would materially alter the character of the companies' business. But they would then be in a line of activity in which there could be little danger of government competition and in which they would have an advantage over private competitors doing a forwarding or commission business without the express companies' railway privileges.

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